

**RHODE ISLAND HOUSING RESOURCES COMMISSION
PERFORMANCE AUDIT
NOVEMBER 2002**

**DEPARTMENT OF ADMINISTRATION
BUREAU OF AUDITS
ONE CAPITOL HILL
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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RHODE ISLAND HOUSING RESOURCES COMMISSION
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EXECUTIVE SUMMARY

The Rhode Island Housing Resources Commission (the Commission) should initiate action to ensure that the coordinating committee of the Rhode Island Resources Agency meets to review and recommend updates to fiscal and operational areas outlined in the Memorandum of Agreement between the Commission and the Rhode Island Housing and Mortgage Finance Corporation to facilitate the relationship between the entities and better support program objectives.

Requests for funds for the Lead Hazard Reduction Program should be made closer to the time they are needed, more frequently, in smaller amounts, and include detailed supporting documentation to the Department of Administration.

Controls should be strengthened in the areas of monitoring compliance with mandatory requirements of the Loan Hazard Reduction Program and for documenting changes to amounts awarded from the original application amount for the Neighborhood Opportunities Program Grants.

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November 27, 2002

Ms. Susan Baxter, Chairman
Rhode Island Housing Resources Commission
41 Eddy Street
Providence, RI 02903

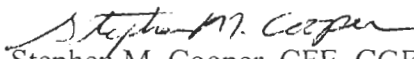
Dear Ms. Baxter:

We have completed our performance audit of the Rhode Island Housing Resources Commission. Our audit was conducted in accordance with Sections 35-7-3 and 35-7-4 of the Rhode Island General Laws.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Management's response to our recommendations is included in this report.

In accordance with Section 35-7-4 of the General Laws, we will review the status of the Rhode Island Housing Resources Commission corrective action plan within six months from the date of the issue of this report.

Sincerely,


Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits

SMC:pp

RHODE ISLAND HOUSING RESOURCES COMMISSION
PERFORMANCE AUDIT
NOVEMBER 2002

INTRODUCTION

Objectives, Scope, and Methodology

We have conducted a performance audit of the Rhode Island Housing Resources Commission for the fiscal year ended June 30, 2001 and the period July 1, 2001 to February 28, 2002. Our objectives were to evaluate the adequacy and effectiveness of managerial controls, the economy of resources, and compliance with significant laws and regulations. Our audit was made in accordance with *The Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditing.

To accomplish our objectives, we obtained an understanding of the procedures for the lead hazard reduction and housing opportunity programs to ascertain whether the results were consistent with the goals and objectives of the programs and were carried out as planned. We also reviewed the reliability and integrity of financial and operating information. We interviewed responsible personnel and performed tests of the accounting records and other such auditing procedures as we considered necessary in the circumstances.

The findings and recommendations included herein have been discussed with management, and we have considered their comments in the preparation of our report. Section 35-7-4 (c) of the Rhode Island General Laws requires the auditee to respond within 60 days to all recommendations in this report. Management's response to our audit findings and recommendations were submitted on November 20, 2002 and are included within.

Background

The Rhode Island Housing Resources Commission (the Commission) was established as a component of RIGL 42-128-4 entitled, "Rhode Island Housing Act of 1998." The Commission serves as the planning and policy, standards, and programs division of the Rhode Island Housing Resources Agency (the Agency). Both the Agency and the Commission are within the Executive Department of the State. Funding is provided to establish a lead hazard reduction program in conjunction with the Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) and to create housing opportunities for homeless and low-wage families.

RIHMFC, an independent corporation, serves as the housing finance and development division of the Agency. A memorandum of agreement (MOA) was entered into between RIHMFC and the Commission to delineate the fiscal and operational responsibilities and duties of the coordinating committee.

Background – (Cont'd)

The Commission consists of the following 5 offices:

- Planning and Policy
- Housing Program and Performance and Evaluation
- Homeless Services
- Homeownership
- Community Development, Program, and Technical

	FY 2000	FY 2001	FY 2002 (Planned)
Expenditure by Object			
Administrative Expenses	\$ 294,957	\$ 339,550	\$ 329,064
Assistance, Grants, Benefits	\$ <u>3,160,000</u>	\$ <u>3,274,657</u>	\$ <u>3,321,797</u>
Total	\$ <u><u>3,454,957</u></u>	\$ <u><u>3,614,207</u></u>	\$ <u><u>3,650,861</u></u>

(Source: FY 2003 Budget)

RHODE ISLAND HOUSING RESOURCES ACT OF 1998



EXECUTIVE BRANCH



R.I. HOUSING RESOURCES AGENCY



RIGL 42-128-4

**PLANNING & POLICY,
STANDARDS & PROGRAM DIVISION**



RIGL 42-128-3

**HOUSING FINANCE &
DEVELOPMENT DIVISION**



**R.I. HOUSING
RESOURCES COMMISSION**



**R.I. HOUSING AND MORTGAGE
FINANCE CORPORATION**

R.I. HOUSING RESOURCES COMMISSION



REPRESENTATION **(27 Members)**

DEPARTMENTS (7)

Administration
Business Regulation
Elderly Affairs
Health
Human Services
Mental Health, Retardation & Hospitals
Attorney General

PUBLIC CORPORATIONS (1)

R.I. Housing and Mortgage Finance
Corporation

PRIVATE CORPORATIONS (6)

R.I. Bankers Association
R.I. Mortgage Banker's Association
R.I. Realtors Association
R.I. Housing Network
R.I. Coalition for the Homeless
R.I. Assoc. of Executive Directors
for Housing

CITIZENS (13)

(Appointed by the Governor With Advice and Consent of the Senate)

Chairperson
Homeless
Community Development Corporation
Agency Addressing Lead Poisoning Issue
Local Planner
Local Building Official
Fair Housing Interest
Racial Minorities
R.I. Builder's Association
Insurers
Community Development Intermediary
for Providing Financing & Tech Asst to
Housing Non-profits
Non-profit Developer
Senior Housing Advocate

RHODE ISLAND HOUSING RESOURCES COMMISSION
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FINDINGS AND RECOMMENDATIONS

Coordinating Committee/Memorandum of Agreement

Section 42-128-2 (2) of the R.I. General Laws created a coordinating committee for the purpose of integrating and coordinating statewide housing programs. To that end, a memorandum of agreement (MOA) was signed between the Rhode Island Housing Resources Commission (the Commission) and The Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) on April 27, 2000. The MOA described the fiscal and operational responsibilities and duties of the Committee. The Committee is required to meet annually until both parties terminate the MOA. The last meeting to the Committee was March 8, 2000. The chairperson of the Commission shall be the chairperson of the coordinating committee.

Our review of the MOA revealed that the section entitled "Program Responsibilities" referred to dates ending June 30, 2001. We were unaware of any amendments or new contracts that extended the original agreement. We also noted that the actual percentage of cost for a RIHMFC employee was different than what was stated in the MOA. Also, it was noted that the representative from RIHMFC chaired the last meeting held instead of the chairperson of the Commission as stated in Section 42-128-2 (2) (i).

More timely meetings of the coordinating committee to address the fiscal issues and keep the MOA consistent with current conditions will facilitate the relationship between the entities and better support program objectives.

Recommendation

1. The Rhode Island Resources Agency should review the provisions in the Memorandum of Agreement that are date specific and any changes in the fiscal and operational relationships.

Management's Response: Accepted

Lead Hazard Reduction Program

Program Funds

The Rhode Island Housing Resources Commission (the Commission) in cooperation with and based on an agreement with the Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) submits requests for payments about four times a year to the Department of Administration for the Lead Hazard Reduction Program to provide loans to qualifying individuals to

eliminate or abate lead hazards found in their residences. These funds are deposited into a general checking account maintained by RIHMFC. There is a separate accounting by year for cash activity representing receipts of state funds and disbursements for loans and operating expenses of the fund. The amount of the request for funds is determined from the number of applications and the related estimates of the loan amount based on the standard cost of the work for the number of units, plus predetermined set fees for the inspection, loan processing, and relocation costs. The disbursement for the actual loan amount may not be made for several months or more after the funds are received. During the fiscal year ended June 30, 2001 the Commission submitted requests for payment for \$1,244,080 including \$1,022,680 for 46 loans. Only 14 loans representing \$361,376 were closed and funds disbursed within 30 days or less from the time the funds were received by the Commission. Consequently, the cash balances as reflected by the separate accounting and held in the RIHMFC general checking account far exceed the immediate cash needs of the Commission. Since only RIHMFC and the Commission know these balances internally, and funds are carried over from one state fiscal year to another, the Department of Administration is not able to incorporate this information into program management and budgetary decisions.

Recommendations

2. Requests for funds should be made closer to the time they are needed and more frequently, if necessary.

Management's Response: Partially Accepted

3. Submit supporting documentation with the requests to the Department of Administration including more detail as to funds disbursed, cash balances and balances at the end of each fiscal year, or any other data required by the department to support payment.

Management's Response: Accepted

Applicant Agreements

Loan applicants sign and agree to several requirements of the program that go into effect if a loan is approved and granted. These requirements include:

- Ensuring that annual re-inspections occur after completion of the lead reduction work.
- Monthly rent charges of tenant families will be for the next five years at or below the fair market rents for the geographic area concerned, as established by the United States Department of Housing and Urban Development (HUD).
- Tenants are to be advised in writing that the rents that may be charged for the units may not exceed the fair market rents established by HUD.

- The monthly rent charges of tenants when relocated for three or more nights during the performance of the lead hazard reduction work are prorated by the owners by deducting the number of nights of relocation.

The Commission's rules and regulations applicable to the program state that to ensure compliance with these rules and regulations, the Commission will conduct site visits and inspections and may require reports and information to document compliance with the Lead Hazard Reduction Program requirements. The Commission does not monitor nor oversee the extent, if any, to which homeowners who receive a lead reduction loan comply with these mandatory requirements. Ensuring that loan recipients are complying with the provisions of the agreements would strengthen controls and assist the program in meeting its objectives.

Recommendation

4. Monitor compliance by loan recipients with mandatory requirements.

Management's Response: Partially Accepted

Neighborhood Opportunities Program Grants

The Neighborhood Opportunities Program is an initiative designed to increase the supply of safe and affordable rental housing through grants to eligible applicants in accordance with program rules and regulations. During the fiscal year ended June 30, 2001, the Commission created pilot programs for the Family Affordable Housing and Permanent Supportive Housing components and awarded \$1,512,000 for twelve projects within the state. In accordance with program rules and regulations staff reviewed applications and made recommendations for funding to the Commission for final approval. In two of the twelve projects approved by the Commission the amount of funding granted exceeded the original application request. Commission staff explained to us that in some instances the amounts have to be increased to make the project workable since the application may have underestimated some components of the projects cost. However, the basis for these funding adjustments was not clearly documented and supported in the project file. Ensuring that there is adequate documentation for changes made to original application amounts in recommendations made to the Commission for final approval would strengthen controls and assist the program in meeting its objectives.

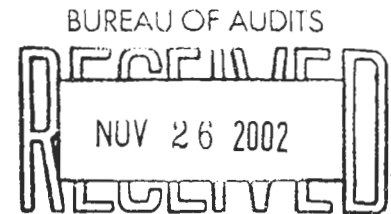
Recommendation

5. Ensure there is adequate documentation to support adjustments to applicant's request for funds.

Management's Response: Accepted

Financial Information

The financial statements of the Rhode Island Housing and Mortgage Finance Corporation, which serves as the fiscal agent for the Commission, were audited by KPMG LLP for the fiscal year ended June 30, 2001. As part of our examination we reviewed the auditor's report. The audit was conducted in accordance with *Government Auditing Standards*. The auditors found no instances of noncompliance and noted no matters involving internal control over financial reporting.



HOUSING RESOURCES COMMISSION
41 Eddy Street, Providence, RI 02903-1727

November 20, 2002

Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits
One Capitol Hill
Providence, RI 02908-5889

Dear Mr. Cooper,

Enclosed is the response of the Housing Resources Commission to the audit dated September 2002 prepared by your office. We thank you and your staff for their thorough and professional review of the programs of the Housing Resources Commission.

The Commission is committed to maintaining the highest standards in its proceedings and in the implementation of its programs. We will follow through on your recommendations as indicated in the attached response with the intent of enhancing record keeping and increasing the effectiveness and efficiency of the Commission's operations.

Sincerely,

Susan Baxter
Chair

Rhode Island Housing Resources Commission
Performance Audit
September 2002

Audit Response

Contact Person:
Susan E. Bodington
Director of Policy
Rhode Island Housing and Mortgage Finance Corporation
44 Washington Street
Providence, RI 02903
Phone: 457-1286
e-mail: sbodington@rihousing.com

Recommendation #1: The Rhode Island Resources Agency should review the provisions in the Memorandum of Agreement that are date specific and any changes in the fiscal and operational relationships.

Response: Accepted

The Coordinating Committee of the Rhode Island Housing Resources Agency met on September 19, 2002 to update the agreement. The proposed agreement was approved by the Housing Resources Commission on September 20, 2002 and by the Rhode Island Housing and Mortgage Finance Corporation Board of Commissioners on October 17, 2002.

Recommendation #2: Requests for funds should be made closer to the time they are needed and more frequently, if necessary.

Response: Partially Accepted

In the fiscal year ending June 30, 2002, the State made only one payment to the Lead Hazard Reduction Program. This payment was made in June 2002 despite several requests for payment dating back to September 2001. As a result, the program had to suspend closing loans with homeowners until funds were available. To effectively run a loan program while limiting payments to immediate cash needs, there must be a predictable receipt of funding after submission of the request for funds. When a loan is closed with a homeowner, a mortgage lien is filed on the property and the funds must be available for disbursement. Small home repair contractors must be paid promptly. During the time period between loan closing and completion of construction there will be a cash balance of funds on hand. However, these funds cannot be used for additional loan closings.

In an attempt to request funds closer to the time they will be disbursed, we will request funds on a monthly basis when the loan has been committed and the owner has received bids from contractors. If the State can process payment within a month, we can better estimate the cash needs of the program and draw funds closer to the date of loan closings.

Recommendation #3: Submit supporting documentation with the requests to the Department of Administration including more detail as to funds disbursed, cash balances and balances at the end of each fiscal year, or any other data required by the department to support payment.

Response: Accepted

The Housing Resources Commission is willing to provide any documentation requested by the Department of Administration. As a minimum, the Commission will provide a list of loans as backup documentation and cash accounts for the program.

Recommendation #4: Monitor compliance by loan recipients with mandatory requirements.

Response: Partially Accepted

The Housing Resources Commission agrees that it is important to ensure compliance with the requirements of the program. However, the Commission has only three staff including one assigned to the lead program. Through its agreement with Rhode Island Housing and Mortgage Finance Corporation there is close supervision and on-site inspections of all properties until the completion of lead reduction work and receipt of a lead safe certificate. It would not be possible to conduct on-going site visits subsequent to completion of the requirements for funding. The Housing Resources Commission has neither the staff nor the budget to contract for these services.

As an alternative, the Commission proposes to send an annual mailing to all loan recipients informing them of the current rent restrictions and reminding them that annual inspections are required. A similar notice will go to tenants to allow them to contact the Commission if the owner is not in compliance.

Recommendation #5: Ensure there is adequate documentation to support adjustments to applicant's request for funds.

Response: Accepted

The Housing Resources Commission agrees that when the staff recommends funding at a level that differs from the application, that a memorandum be prepared for the file with the explanation and calculations used to determine the appropriate level of funding.